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Cheryl L. Parrino  
Chief Executive Officer

March 5, 1999

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**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
12<sup>th</sup> Street Lobby, TW-A325  
445 12th Street, S.W.  
Washington, D.C. 20554

RE: Filing of the Rural Health Care Evaluation Report in Response the Public Notice  
(CC Docket Nos. 96-45 and 97-21)

Dear Ms. Salas:

The Universal Service Administrative Company (USAC) is required to submit to the FCC revised administrative expenses for the rural health care support mechanism along with an evaluation of the program by March 5, 1999.

In compliance with the requirements in the Commission's December 4, 1998, Public Notice<sup>1</sup>, the report provides the following: (1) Recommendations for reducing the administrative expenses associated with the rural health care support mechanism to an amount that is commensurate with the size of the support mechanism; (2) An evaluation of ways to improve opportunities for eligible rural health care providers to take advantage of the support mechanism; and (3) An evaluate of anticipated demand for 1998 and 1999.

In addition to the report, USAC is submitting some background information that may be useful to the Commission as it reviews the report. The information includes a summary of the feedback from stakeholders, the survey instruments used in the survey, and the supporting calculations for the demand forecast.

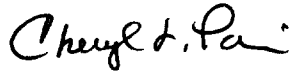
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<sup>1</sup> Proposed First Quarter 1999 Universal Service Contribution Factors and Proposed Actions, CC docket No. 96-45.

Ms. Magalie Roman Salas  
March 5, 1999  
Page 2

In accordance with Commission rules, USAC is submitting two copies of this notice for each docket to the Office of the Secretary. Please acknowledge receipt hereof by affixing a notation on a duplicate copy of this letter furnished herewith for such purposes and remitting same to the bearer.

Sincerely,



Cheryl L. Parrino  
Chief Executive Officer

CLP:cah:\letters\FCC\RHC Report 0399

Enclosures

cc: Chairman Kennard  
Commissioner Ness  
Commissioner Furchtgott-Roth  
Commissioner Powell  
Commissioner Tristani  
Mr. Lawrence Strickling  
Ms. Lisa Zaina  
Ms. Irene Flannery  
Ms. Linda Armstrong  
USAC Board



# REPORT TO THE FCC

## Evaluation of the Rural Health Care Program

- Suggested Improvements
- Anticipated Demand
- Revised Administrative Expenses

March 5, 1999

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
RURAL HEALTH CARE DIVISION

## Evaluation of the Rural Health Care Program

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# SECTION I

## Purpose of Review

The Federal Communications Commission (Commission) proposed that the Universal Service Administrative Company (USAC), pursuant to its obligations as administrator: (1) reduce the administrative expense associated with the rural health care support mechanism to an amount that is commensurate with the size of the support mechanism; (2) evaluate ways to improve opportunities for eligible rural health care providers to take advantage of the support mechanism; and (3) evaluate anticipated demand for 1999. USAC is required to submit revised administrative expenses for the rural health care support mechanism and an evaluation of the Program by March 5, 1999. This report meets those requirements by focusing on the opportunities for improvement in the administration of the rural health care fund, including proposals for reducing administrative costs, and forecasting anticipated demand for the Program.

## SECTION II

### **Summary of Findings and Recommendations for Administrative Improvements and Reductions to Administrative Expenses**

This report includes an analysis of the policy and administrative barriers identified by the stakeholders that were surveyed. Consistent with the role and mission of USAC, our recommendations focus on administrative improvements and the interpretation of the Commission's rules in the administration of the Program. Rural health care and industry experts have provided USAC with several recommendations for addressing the policy barriers that would require the Commission to re-evaluate its approach, reexamine policy determinations, and in some instances, seek statutory change. These recommendations are included in **Appendix B** to this report.

This report provides a history of the Rural Health Care Program (Program) (Section III), benchmark information regarding administrative costs of other non-profits for comparison purposes (Section IV), and an overview of the customer groups that were surveyed about the Program (Section V). These sections of the report and the feedback from the stakeholders provide the background and basis for the recommendations in the report.

The report recommends simplification of the Program to increase participation (especially for small rural health care providers (RHCPs) and small rural telecommunications carriers) and to decrease the administrative costs. Absent simplification, the report recommends other options for reducing administrative costs. These recommendations are primarily found in Section VI, Identification and Quantification of Barriers to Efficient Operations and Section VII, Analysis of Demand and Administrative Costs.

The report includes the following:

- Recommendations for improvements in the Program
  - Simplify the urban-rural rate calculation
  - Recognize that one component of the urban-rural rate differential is distance
  - Simplify the forms
  - Target outreach efforts
  - Refocus outreach efforts to partner with additional associations and federal and state agencies
  - Consolidate Program functions
  - Extend the funding cycle for the first year by 6 to 12 months, delay the opening of the second application cycle, and significantly change the Program for the second application cycle.
- Estimates of 1998 and 1999 application year demand
  - \$3,115,000 for 1998
  - \$9,290,000 for 1999



- Recommendations for reductions in Program administrative expenses
  - 2<sup>nd</sup> Quarter 1999
    - Reallocate USAC support (Compensation)
    - Reallocate the support position 100 percent to the USAC support
    - Eliminate the President position
  - For the Period July 1 – December 31, 1999
    - Reduce outside contract costs
    - Reallocate billing and collections costs
    - No renewal of the PricewaterhouseCoopers LLP (PwC) contract. If the Commission extends the first year and delays the start of the second application cycle, provide for a transition to complete any remaining first year applications and process all new applications in-house.
  - After January 1, 2000 – without simplification of the Program
    - Consolidate like functions with other programs
    - Consider bringing functions in-house and/or re-bid the contract
  - After January 1, 2000 – with simplification of the Program
    - Bring all operations in-house and consolidate wherever possible

### **Recommendations for Improvements in the Program**

The primary barrier to a more efficient program is the design that was intended to accommodate a larger number of participants and level of support per participant. However, it appears that existing state and federal universal service policies have minimized any urban-rural rate differential for basic switched services. The best current estimates show that this Program is not likely to exceed \$10 million in annual support level in the near term. If this had been the assumption at the onset, a less complex infrastructure likely would have been established. Removal of this barrier for the existing Program will involve simplifying the rate calculations, changing the distance calculations, simplifying the forms required from the RHCPs and the carriers, and consolidation of application handling, customer support, web site maintenance, and support invoicing with other USAC programs.

Other major barriers are the completion of the pre-commitment audit and a few unresolved issues of interpretation. The resolution of these issues should be concluded shortly.

While outreach itself is not a significant barrier, the actual measure of its effectiveness is a barrier to designing future outreach programs that are more effective. Feedback from applicants on outreach should be incorporated into the customer service representatives' contact with applicants. Outreach plans for future years should include special emphasis on regions with the highest potential to receive benefits under the Program. The first step in improving outreach must be the continual development of a reliable database of eligible providers beginning with the successful 1998 group of RHCPs.

### ***Process Improvements***

It is critically important that USAC do whatever it can to get this Program on solid footing. In that regard, USAC should work closely with the Commission to implement programmatic changes as quickly as possible. USAC is concerned that the current Program is in serious jeopardy because the level of frustration of RHCPs is high, the level of demand is low, and the level of administrative costs for the Program currently may exceed the support that is provided to RHCPs.

The most important process improvement needed at this time is the simplification of the rate calculation process. The time spent on this function is vastly out of proportion to the benefit. The most straightforward solution, which can be accomplished within the bounds of the Telecommunications Act of 1996 (Act of 1996), is simplification of the urban-rural rate differential calculation. One method for accomplishing that would be to calculate a statewide average discount for eligible services. This discount could simply be applied to all distance-based services including T-1 and fractional T-1. If program changes are also made that allow a different approach for identifying the urban-rural rate difference, such as mileage or long-distance charges, a simple discount can apply to all services. The mileage component or the long-distance charges could be a surrogate for the urban-rural rate difference. The mileage discount would be based on the charge for the mileage from the rural provider to the outer bounds of the nearest urban area. This would be simple to calculate and apply. It would not involve calculating a hypothetical urban rate for comparison and would not involve a maximum allowable distance calculation. This recommendation holds the most promise for administrative expense reduction.

Another simplification available to the Commission would be for it to recognize, like the Commission recognized for access to the Internet, that long-distance charges represent a rate difference between urban and rural service.

Internally, USAC will look to consolidate the rural health care processes into processes that are being performed for other universal service programs. For example, client assistance could be consolidated for the Schools and Libraries and Rural Health Care Programs once current contracts expire.

This Program is important to rural communities and to the provision of health care to those communities. USAC is committed to working with the Commission, RHCPs, and carriers to make this Program work. Because of the concern for the viability of the Program, USAC recommends that the Commission consider delaying the opening of the second round of applications and extending the funding period for the first application cycle. This would eliminate the need for RHCPs to reapply for support beginning July 1, 1999. Going forward, it would eliminate the need to continue to use the current system, which is burdensome and costly; it would give the

Commission time to implement changes to the Program; it would provide industry experts with time to provide the Commission with specific recommendations on how to implement these improvements; and it would allow USAC to decrease administrative costs. Delaying the opening of the second application cycle would also ensure that RHCPs would know what funding they will receive prior to filing their next application. USAC recommends that the extension be limited to 6 – 12 months and that the Commission immediately establish a Task Force to work out the details of a simplified program that implements the recommendations in this report. USAC is committed to working with the Commission, RHCPs, the carriers, and other government agencies to complete the task in this time frame.

The rural health care experts have said that, “the application process as it exists today is burdensome, complicated, causes substantial hardship on applicants, and creates a barrier on getting the Program benefits out to the intended beneficiaries.”<sup>1</sup> The current process is also very costly for USAC to administer. Without significant changes in the process, USAC will continue to incur administrative costs significantly above comparable benchmarks and above those costs that serve the public interest.

USAC realizes that there are potential disadvantages to this recommendation: it may be viewed as but one more delay in the Program, and RHCPs that do not file a Form 465 by May 15, 1999, will have to wait until they can file for Year 2. Because of concern for the current vulnerability of the Program and our desire to get it on solid footing as soon as possible while reducing the costs to administer the Program, USAC puts forward this recommendation as an additional option for Commission consideration.

### ***Outreach Improvements***

Continued working relationships with the National Telephone Cooperative Association (NTCA) and the National Organization of State Offices of Rural Health (NOSORH) are important to maintain broad awareness of the Program. However, it is not necessary to award contracts again for the 1999 year. Efforts of the Rural Health Care Division (RHCD) should be concentrated on continuing to develop an accurate database of RHCPs based on the applicant pool, to target additional efforts to regions that have the highest possibility of receiving support, and to coordinate efforts with the NTCA, NOSORH, and other associations. Outreach plans should also include partnering with associations, government agencies, the telecommunications industry, and the other universal service programs. A community-based approach working with carriers, community leaders, school and library officials, and other government agencies to outreach should be considered. Associations, government agencies, and industry should also continue to be used as a resource for identifying the eligible RHCPs. In addition, some RHCD outreach should be specifically targeted

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<sup>1</sup> See Appendix B.

to the beginning of the new Program year to maximum available months of support.

## **Demand**

Demand will not increase significantly without major changes in the Program (such as increases in the type of health care providers that qualify and the services that are covered) and the removal of some of the health care industry barriers. Absent changes, demand is not likely to exceed \$10 million in annual support next year. Over time, demand will increase from this amount with simplification of the Program, with the growth of telemedicine<sup>2</sup> networks, and if Alaska can develop a model to overcome the ETC barrier (as discussed in Sections III and VI of this report).

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<sup>2</sup> The term "telemedicine" is used throughout this report as the broad term to apply to all applications as described in the Commission Order. "For purposes of this Order, we consider the terms 'telemedicine,' 'telehealth,' 'telemedicinal applications,' and 'telemedicine-related services' to be interchangeable. The Joint Working Group on Telemedicine defines 'telemedicine' as 'the use of telecommunications and information [service] technologies for the provision and support of clinical care to individuals at a distance and the transmission of information needed to provide that care.' It defines 'telehealth' as including clinical care, but additionally encompassing the related areas of 'health professionals' education, consumer health education, public health, research and administration of health services.' See JOINT WORKING GROUP ON TELEMEDICINE, TELEMEDICINE REPORT TO THE CONGRESS at 90, U.S. Department of Commerce (1997) (Joint Working Group Report)."

## Reductions in Administrative Costs

Reductions in administrative costs are necessary to bring Program costs in line with demand for support. Some reductions in administrative costs are possible in the short term; however, changes in the Program are necessary to bring costs to a level that is consistent with the public interest. Administrative costs should move toward comparable benchmark figures for government foundation groups. This report examines benchmark administrative costs for three groups of grant-giving organizations. The government foundation group shows a top level of administrative costs of 26 percent of Program size. The RHCD should take steps immediately to move toward this goal in the short term. The organization should work to bring administrative costs within the five to ten percent ranges in the long term.

The 1998 and 1999 budgets are comprised primarily of four cost categories: outsourcing, billing and collections, compensation, and outreach. Each of these categories will need to be reduced in the short term to make significant movement toward the benchmarks. There are three contracts currently in place: one with PwC until June 1999, and two outreach contracts (NTCA and NOSORH) that should be concluded within a few months.

The following chart summarizes the range of proposed cost reductions.

**Summary of Proposed RHCD Cost Reductions for 1999 (Annualized Estimates)**

Cost Item	Range of Net Reductions
Outsourcing: PwC	\$569,940
Billing and Collection	\$736,100
Compensation	\$10,000 to \$298,000
Outreach	\$24,500
Total	Up to \$1,628,540

If all of these cost reductions were implemented, administrative costs allocated to the RHCD would be lower for the 1999 plan year. However, the majority of these savings would only be realized for the second half of the year. Estimated 1999 administrative costs—assuming the current first quarter budget, a revised second quarter budget adjusted for compensation savings, and six months of cost savings identified above—would be approximately 35 percent of the projected 1999 funding level. Reductions in costs at or slightly below the high range of the benchmark study contained herein can be made through consolidation of functions with other programs. However, significant reductions can only be accomplished if the proposed Program simplification is implemented.

Another way to reduce administrative costs significantly in the short term is to extend the current funding cycle and delay the opening of the second application cycle until the Program is simplified.

## SECTION III

### History of the Program Administration

On February 8, 1996, the Telecommunications Act of 1996 (the Act of 1996) was enacted into law as an amendment to the Communications Act of 1934. Section 254(h) of the Act of 1996 require that all public and non-profit health care providers have access to telecommunications services necessary for the provision of health care services at rates that are comparable to rates paid in urban areas for comparable services.

Specifically, the Act of 1996 states:

A telecommunications carrier shall, upon receiving a bona fide request, provide telecommunications services which are necessary for the provision of health care services in a State, including instruction relating to such services, to any public or nonprofit health care provider that serves persons who reside in rural areas in that State at rates that are reasonably comparable to rates charged for similar services in urban areas in that State. A telecommunications carrier providing service under this paragraph shall be entitled to have an amount equal to the difference, if any, between the rates for services provided to health care providers for rural areas in a State and the rates for similar services provided to other customers in comparable rural areas in that State treated as a service obligation as a part of its obligation to participate in the mechanisms to preserve and advance universal service.<sup>3</sup>

The May 8, 1997, Commission Order (Order) defined services to be supported by the universal service programs, including rural health care. It defined support mechanisms and made changes to Commission rules to implement the Act of 1996. According to the Commission Order, support is available for telecommunications services with a maximum bandwidth of 1.544 Mbps and for long-distance charges to access an Internet service provider. It also delineated how the health care provider would be classified as rural. Support is generally equivalent to the differential between the rural rate and the nearest urban rate for a comparable eligible service. This support is available only to public and not-for-profit organizations that contract with an eligible telecommunications carrier (ETC). Individual state commissions designate ETC status. The Program was designed based on the best information available regarding telemedicine programs, the need for telecommunications assistance, and the number of eligible RHCPs.

The National Exchange Carrier Association (NECA) was appointed as the temporary administrator of the universal service programs in the May 8 Order, and was provided

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<sup>3</sup> See 47 U.S.C. § 254(h)(1)(A).

<sup>4</sup> Federal-State Joint board on Universal Service, *Report and Order*, CC Docket No. 96-45, FCC 97-157, 12 FCC Red 8776 (rel. May 8, 1997) (Order).

administrative rules in the Second Order on Reconsideration on July 18, 1997.<sup>5</sup> USAC was created in 1997 as a subsidiary of NECA. The independent Rural Health Care Corporation (RHCC) was established in September 1997 and funds were first available for the Program on January 1, 1998. The newly elected RHCC Board hired a CEO on January 27, 1998. Three other employees were hired shortly thereafter.

The RHCD of USAC now administers the Rural Health Care Universal Service Program pursuant to its appointment by the Commission. The mission of the RHCD is to administer the Program in an efficient and effective manner as directed by the Commission.

### **Structure of the Independent Administrator**

On January 1, 1999, the Rural Health Care Corporation and the Schools and Libraries Corporation were merged into USAC. As part of the merger, USAC created the Rural Health Care Division to oversee the administration of the Rural Health Care Universal Service Program.

Prior to the merger, the RHCC had four full-time employees. The President was Lee Bailey who was responsible for the management and operation of the corporation and for program and application process administration, accounting, regulatory, legal, outreach, and personnel. Melvin Blackwell, Vice President, has been responsible for outreach to rural health care providers, telephone service providers, industry associations, and media to promote the Program. Mr. Blackwell was also responsible for program development and implementation, education, and responding to inquiries from Congress.

William England was the Director of Corporate Systems and Policy. His responsibilities included the day-to-day management of the RHCC application process, telecommunications provider invoicing and payment systems, general data management and processing, and program statistics. He was also responsible, in part, for outreach and information dissemination. Donna Faunce was the Executive Assistant, responsible for procurement, supervision of accounting, employee benefits, and scheduling. She also provided administrative and clerical support to all employees.

RHCC received bids from potential contractors to perform the customer help desk and application processing functions as well as web site development. In February 1998, RHCC selected PwC as the lowest cost bidder to perform these functions. As part of the contract, PwC employees have also been involved in calculating the urban-rural rate differentials and have worked closely with RHCC employees in problem solving and process development.

The merger has allowed USAC to consolidate and take advantage of redundant functions of the three corporations. Accordingly, the responsibilities of some of these employees have been adjusted and reallocated. Mr. Blackwell and Ms. Faunce

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<sup>5</sup> Changes to the Board of Directors of the National Exchange Carrier Association, Inc. and Federal-State Joint Board on Universal Service, *Second Report and Order and Second Order on Reconsideration*, CC Docket Nos. 97-21 and 96-45, 12 FCC Rcd 18400 (USAC Order).

have added responsibilities for all of the programs and a portion of their time is allocated to the three other programs rather than 100 percent to the new RHCD. In addition, management employees of USAC now have overall responsibilities for this Program as well as the other three. Mr. Bailey is now President of the RHCD and Mr. England is Director of RHCD Operations and Systems. Mr. Blackwell is now Vice President of External Communications for the entire USAC organization and Ms. Faunce is now Executive Assistant for Programs reporting to the President of the High Cost Low Income (HCLI) Division and the President of the Schools and Libraries Division (SLD) in addition to Mr. Bailey. Sixty percent of Ms. Faunce's time is currently allocated to the Rural Health Care (RHC) Program and the balance is allocated to the other programs. However, the total allocation of salaries and full-time equivalent (FTE) employees to the RHC Program has not changed significantly.

## **Administrative Processes Established to Meet the Program Design Specifications**

### ***Current Process***

The mechanism for requesting support is a series of forms, which can be downloaded from an Internet site. The first form, 465, is filled out by the RHCPs and indicates interest in acquiring support for telecommunications service for new or existing telemedicine program. Form 465 also determines whether a rural health care provider (RHCP) is eligible to receive funds from the Program. Funds may be distributed up to \$400 million on an annual basis.

Following the review of Form 465, the RHCD and its contractor, PwC, determine eligibility of the RHCP and post the request for service on a web site with the intention of attracting bids for that service. The rural health care provider selects the service and a carrier and notifies the RHCD via Form 466 after the posting period is expired. The eligible telecommunications provider also supplies information to the RHCD via Form 468. The RHCP then files Form 467 to certify that the services are being provided. The RHCD commits the funds to the telecommunications provider on a monthly basis. Finally, the telecommunications provider provides the credit to the RHCP.

### ***Web Site***

The RHCD web site is the center of information sharing between the RHCD and providers: [rhc.universalservice.org](http://rhc.universalservice.org). The development of the current site was contracted to PwC after the RHCC Board rejected an initial attempt by another firm. The PwC site has been up and running for approximately 10 months. The site has two primary functions. One function is to share information about the Program with any interested party. The second purpose is to facilitate the application process. Forms can be downloaded and then filed on paper. Form 465 can be uploaded when complete but must be filed on paper with a valid signature as well.



In addition, the web site contains useful information for RHCP and telecommunications providers, such as links to state regulators and a list of eligible telecommunications carriers (ETCs) by state to help participants determine which telecommunications providers are eligible to participate in the Program. USAC is responsible for maintaining the list of ETCs.

A PwC Webmaster handles development and maintenance of the web site. This includes updates to current information on the site, process enhancements, and form updates in accordance with Commission-approved changes.

### ***Handling of Applications***

PwC employees handle the actual processing of all forms according to direction given from the RHCD staff. Where interpretation of specific provider information or Commission rules is needed, PwC consults with RHCD staff. RHCD has consulted with the Commission on numerous occasions, although only two requests for clarification were filed formally with the Secretary. There have also been many informal, written requests addressed to the Commission staff. PwC has also consulted with the Commission directly. While this has added time to the process, it is necessary to ensure that the RHCD is administering the Program consistent with the Commission Orders and rules and it also helps to avoid incorrect interpretations, which are more difficult to correct at the end of the process.

The application process can be roughly divided into three phases: confirmation of eligibility and posting of request for services; verification and calculation of rates and discounts; and approval of funding and arrangement of credits for providers. The first two phases have been completed for many of the 1998 plan-year applicants; however, given the current hold on commitments, the final phase has not yet been implemented. Any comments herein on the third phase are not based on any actual experience to date.

To initiate the first phase of the application process, the RHCP completes Form 465, Description of Services Requested and Certification Form. Upon receiving this form, the customer service representative (CSR) of PwC must confirm eligibility and post the request for new service (or existing tariff service) on the web site. An applicant who meets the tests for eligibility is deemed "approved." This does not mean, however, that the applicant is approved to receive support. At this stage there are no commitments either from RHCD or from the RHCP that telemedicine is being used (or planned to be used) or that support will be forthcoming.

The CSR must also calculate the MAD to be used in calculating distance-sensitive rate differentials.

The Internet posting is required for 28 days before a provider can be selected and before the next form can be filed. For pre-existing services under

contract, the 28-day period is waived. The next step for the RHCP is to contract with the telecommunications provider that provides the most cost-effective services considering their needs. The Commission designed this Program with the expectation that telecommunications providers would bid to provide the services requested. The RHCP can also seek bids independent of the web site. Neither RHCD nor PwC get involved in the bid process itself.

Once an ETC is selected, the applicant completes Form 466, Services Ordered and Certification Form. (As discussed elsewhere in this report, in most instances there is only one ETC to choose from at this time.) The purpose of this form is to identify the types of services ordered and to certify that the most cost-effective provider was selected. Only ETCs are eligible to receive discounts. A circuit may contain an ETC and a non-ETC, but the portion provided by the non-ETC will not be supported.

In parallel, the telecommunications provider completes Form 468, Telecommunications Support Form. The functions of this form are to verify the services offered and to calculate the rural and urban rate differential for this provider. An "optional" worksheet is offered to assist with the rate calculation. Although the form is "optional," carriers have found it is a necessary tool for completing the form.

The final step in the process is the commitment of funds by the RHCD.<sup>6</sup> After the RHCP is notified of its support amount, it submits Form 467, Service Confirmation Form, to verify that service is being provided. This will ensure that those services contracted for are actually received during the Program year.

The 1998 plan year was originally a calendar year but has been extended to June 30, 1999, making it an 18-month cycle. Applications for the 1999 year have been accepted since March 1, 1999. The 1999 plan year will begin July 1, 1999, and end on June 30, 2000. An applicant who wants to apply for the 1999 year must follow the process outlined above. All health care providers seeking Universal Service Fund (USF) support for the second year must apply regardless of whether they applied in 1998.

### ***Customer Outreach, Education, and Eligible RHCPs***

Customer Outreach and Education activities have been carried out by employees of the RHCD, Board members, and two contractors (NTCA and NOSORH) hired to assist with disseminating information about the Program.

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<sup>6</sup> The Commission has required that an independent audit firm review the procedures and internal controls and provide an opinion that procedures are in place to protect against waste, fraud, and abuse. This audit must be completed and the RHCD must receive a letter from the Commission Chairman agreeing with the audit findings. The sign-off from the Chairman, indicating that he is confident that adequate procedures are in place, must be received before commitment letters can be issued by the RHCD. The RHCD is in the process of having this audit redone, as the Commission did not accept the first review.

As a first step in identifying a target market for the Program, staff obtained a list of eligible health care providers. However, staff quickly learned that while the list from the American Hospital Association contained 12,000 hospitals, many were not eligible to participate in this Program because they were either urban or for-profit. Staff then continued to work to develop a comprehensive list of potentially eligible health care providers.

RHC staff contacted the following resources in an effort to secure their databases, mailing lists, membership rosters, or any other information which would help identify and reach out to rural, non-profit, health care providers:

- American Hospital Association
- National Association of County Health Centers
- National Rural Health Association – list of members
- Rural Health Clinics – membership list of 3,000
- American Association of Medical Colleges
- Rural Roundtable
- HCFA– rural health clinics and Medicare hospitals
- American Psychology Association
- American Academy of Family Physicians
- American Medical Association
- American Academy of Physician Assistants
- American College of Nurses
- American Nurse Practitioners
- Office of Migrant Health, HHS
- National Association of Community Health Centers
- National Rural Mental Health Association
- Bureau of Primary Care, Office of Rural Health Policy
- State Offices of Rural Health
- Centers for Disease Control and Prevention
- State and Territorial Public Health Directors
- Local Public Health Directors
- Local Boards of Health

These contacts did not provide a comprehensive list of eligible RHCPs. In light of this, staff used a broad list as the basis for its initial mailing. Through this approach, non-health care providers, urban providers, and for-profit providers learned about the Program. The informational mailing went to over 20,000 potential applicants. From this mailing effort, over 1,400 responses were received and in turn each were sent an information packet and application.

In addition, efforts of the staff of the RHCC and the newly formed RHCD, and Board and Committee members of the same, have included a number of varied activities. Between March 1998 and February 1999, the RHCC and

RHCD were directly involved in approximately 40 different conferences, events, exhibits, workgroups, seminars, and workshops in the following states:

- Alabama
- California
- Colorado
- Florida (3)
- Maryland
- Mississippi (2)
- Nebraska
- New Jersey (2)
- New Mexico
- New York (2)
- North Carolina (3)
- Ohio
- Oregon
- Texas (2)
- Utah
- Virginia (2)
- Washington
- Washington, DC (9)

RHC staff participated in audio and video call-in seminars, which have had a broader reach. One teleconference covered Alaska. RHC staff has created a broadcast-training program, which was broadcast to 48 locations and viewed over the Internet by over 1,000 people. About 350 people additional people have viewed the videotape created from this training session. Other outreach activities include regular e-mail updates to a group of 100 interested parties and participation in three ongoing workgroups.

The NOSORH contract proposed to issue mini grants to State Offices of Rural Health (SORH) for a variety of outreach activities. The SORH will suggest outreach activities in their applications for the mini-grants. The activities will include: defining telemedicine, exploring benefits of using telemedicine in rural areas, providing increased understanding of infrastructure needs associated with telemedicine, and identifying resources available for paying for telemedicine including the USF. As of February 19, 1999, 30 projects have been approved for funding through the NOSORH contract. These projects represent about \$100,000. The cost reporting and evaluation method for these projects is still in the development stage so there are no specific measurable results to report to date. Most projects are scheduled to be completed by April 1999. No payments have been made to date.

NOSORH outreach activities will take place primarily in spring of 1999. This clearly will not materially affect the results for the 1998 plan year. This

schedule appears to be behind that agreed to in the contract due to an extension of time to file for grants. The SORH are required to update the NOSORH web site with information on grant activities. The web site is [www.ruralcenter.org/nosorh](http://www.ruralcenter.org/nosorh), however, it does not have specific information about the individual grant programs or general tips for how to apply. Finally, the SORH must fill out an evaluation and cost report to be reimbursed by NOSORH.

The NTCA contract promised to deliver 100 or more applications to the RCHD by December 31, 1998, and to educate all 500 NTCA member phone companies, rural development organizations, the medical industry, and 18,000 "eligible" RHCPs about the Program. A November 5, 1998, report on the progress of this contract indicates a significant volume of outreach activity over the period, including a training session for the NTCA staff, publication of articles in the popular and trade press, and workshops and briefings at industry meetings. In addition, NTCA has developed e-mail lists, conducted surveys, and made site visits to rural carriers. The objective cited in the original contract is that NTCA would bring 100 more applications. NTCA reported on the number of outreach activities but indicated that its goal of having the carriers submit written commitments was not possible. The Program is running behind its original schedule and NTCA has asked if the time can be extended so that it can continue to participate in outreach opportunities. An extension will put the outreach into the second Program year.

The NTCA also held a focus group session for telecommunications providers in San Antonio, in February 1999.

In addition, RHCD, at the direction of the former RHCC board, contacted a number of academics and professionals in the field of telemedicine to get better information on the pool of eligible health care providers. Those experts indicated that the market was far smaller than originally estimated. This was due in part to a recognition that recent changes in telecommunications technology, as well as information technologies in the health care field, have resulted in an apparent trend away from the T-1 type, point-to-point service to lower cost switched offerings and Internet based applications. Further investigation also confirmed that the growth in hub/spoke network development was slow largely due to the need for outside funding to support the networks, and due to the fact that telecommunications costs are but a small piece of the overall network.

Data collected by American Telemedicine Service Providers (ATSP) for 1998 reported 157 networks covering 1,345 sites for 1998. Academic medical centers and hospital/health networks make up the bulk of the programs. Grants, internal funding, and state contracts/subsidies are the primary source of the funding. The majority of the programs report that their systems are used primarily for clinical uses; however, a number of the respondents were for profit or private and a number of respondents were in urban areas. Only about 40 percent of the respondents used T-1 type point to point

telecommunications service that would receive Program support. While the ATSP survey does not provide a list of eligible participants, it is the best data there is on telemedicine participation and confirms the view that the market for the subsidy is relatively small.

There has been no effort to create an exact count or database of potentially eligible RHCPs that would supplant the original estimate of 12,000 used by the Commission.

### **Current Level of RHCD Administrative Costs (Actual 1998 and Budgeted 1999)**

Actual administrative costs for 1998 represent development costs associated with startup and implementation of a new program. The costs for 1998 also reflect systems designed for a \$400 million program with 12,000 applicants. The system was set up to handle accurate tracking and to handle the anticipated volume, to be consistent with Commission rules and to protect against waste, fraud, and abuse.

In 1999, start-up costs should be eliminated, but the ongoing maintenance costs for systems, which were set up with high-volume expectations, remain until program simplifications are adopted. Preliminary figures for actual 1998 costs show that \$4,612,360 was spent in calendar year 1998. Projections for 1999, which reflect the merger of RHCC with USAC, show that expected administrative costs are \$4,184,200. This is a reduction of \$428,160 or about 9 percent compared to 1998.

The UASC Board of Directors approved the quarterly 1999 budget projections in January 1999; however, it recognized that significant changes to administrative costs would need to be made as part of this evaluation and report. The following table shows the budget estimates provided to the Commission for RHC Program administration.

**Projections for 1999 RHCD Administrative Costs Prior to the Adjustments  
Recommended in this Report (Thousands of Dollars)**

Item	99 Q1	99 Q2	99 Q3	99 Q4	99 Total
Compensation	100	100	100	100	400
Travel	5	5	5	5	20
Mailings	3	3	2.4	2.4	10.8
Audit		40			40
Tel	5	5	5	5	20
Taxes	2	2	2	2	8
Misc.	6	6	6	6	24
PwC	504	558	492	492	2046
Outsourcing Outreach	200	150	10.5	35	395.5
Total Direct	825	869	622.9	647.4	2964.3
USAC Support	120.6	121.7	120.4	118.1	480.8
Billing and Collection	183.1	182.8	187.8	185.4	739.1
<b>Total RHCD</b>	<b>1128.7</b>	<b>1173.5</b>	<b>931.1</b>	<b>950.9</b>	<b>4184.2</b>

A straightforward comparison of the total 1998 administrative costs and the total 1999 budget is difficult due to the startup nature of 1998 and due to the new corporate structure in 1999. Instead, it makes more sense to focus attention on the four items that represent the most significant percent of both years: Outsourcing to PwC, Billing and Collection, Compensation (direct and indirect allocations), and Outsourcing for Outreach. These items represented 90 percent of administrative expenses in 1998 and 91 percent in 1999. The following table summarizes the projected levels of these items for 1999.

**Budget Focus on Key Administrative Costs for RHCD 1999 (Thousands of Dollars)**

Item	1Q99	2Q99	3Q99	4Q99	Total 99
Outsource: PwC	504	558	492	492	2046
Billing & Collection	183.1	182.8	187.8	185.4	739.1
Compensation	153 <sup>7</sup>	153	153	153	612
Outsource: Outreach	200	150	10.5	35	395.5
<b>Total</b>	<b>1,040.1</b>	<b>1,043.8</b>	<b>843.3</b>	<b>865.4</b>	<b>3,792.6</b>

The **Outsource: PwC** figures are the most significant budget item both in 1998 and 1999. The first task of the RHOC's newly hired staff was to review proposals submitted in response to its RFP for performing the functions of web site development and maintenance, customer service, and application processing. It received three proposals. The proposal submitted by PwC was the least expensive bid, with an estimated cost of \$6.4 million for up to four years. The RHOC management and the Board determined that the quality and cost of this proposal was superior to the other bids and entered into a service contract with PwC.

The original estimate for web site development was \$464,000. As of February 15, 1999, additional web development and maintenance costs have totaled approximately \$307,000.

<sup>7</sup> Direct compensation costs for RHCD staff for each quarter in 1999 are \$100,000. USAC common compensation costs of 24 percent (\$53,000) are also allocated to the RHCD for total compensation costs of \$153,000.

During the first six months of the contract, the average monthly cost for PwC services was \$239,267. This included web site maintenance, forms processing, customer service, outreach, form revision, urban rate development and multiple bill circuit assistance, development of the invoicing system, and project management. In August, RHCC recognized that the scope of the Program was significantly different than what the Commission had anticipated. The RHCC and PwC entered into a contract modification that, among other things, reduced the average monthly billings by 29 percent, or in fixed price terms, \$170,000 per month through February 1999. This cost cutting exercise brought in-house to RHCC certain analytical and reporting activities, significantly reduced PwC's outreach and training activities, and reduced the customer service representatives from five to three. Staffing on the help desk was reduced to accommodate this reduction.

In December 1998, recognizing that the scope of the Program was even smaller still than anticipated, but also recognizing that the complexity of the application process as well as the number of packets being received consumed far greater customer service time than expected, RHCC and PwC again renegotiated the contract for the period from March 1 through June 30, 1999, at a flat rate of \$186,000 per month. The increase from \$170,000 to \$186,000 per month is due to the need to increase the customer service representatives from three to six in order to review 1998 Form 466/468 packets as well as to process the applications expected to be received in the new year that begins March 1, 1999.

PwC has been very willing to adjust the contract to reflect changed circumstances. Since the contract currently extends to June 30, 1999, the contract will again need to be revisited in a few months. Even with the modifications to the PwC contract, the relative size of the PwC contract compared to the projected support amounts is disproportionate.

The **Billing and Collection** amounts reflect a system of cost allocations among the four USAC programs. Specifically, the expense for billing and collections (and some distribution costs) is divided evenly between the programs since each provider must be billed and the cost of billing is not affected by the size of the bill. This equal division allocates a relatively large amount of costs to the Program when compared to the projected support amounts for the Program.

The amounts for **Compensation** have stayed relatively constant over the life of the Program. There were four FTE employees in 1998 and 2.6 directly assigned in 1999 following the merger. The other 1.4 FTE employees have been allocated to the USAC organization. The merger has reallocated some time from other USAC staff to RHCD, which effectively brings the number of staff back to the four FTE employees.

The **Outsource: Outreach** expense figures are not significant relative to the items discussed above and these costs will decrease significantly in the third and fourth quarters.



## **Operational Results in 1998 and the Status of Outstanding Issues**

Operational results for 1998 are difficult to assess since no awards or credits have been made at this time. The 1998 plan year was extended through June 30, 1999. The 1999 plan year will begin on July 1, 1999, and end on June 30, 2000. This means that the awards for 1998 could span as much as 18 months for those who had existing contracts for telecommunications services for telemedicine. A review of the current data shows only a few applicants will qualify for 18 months of support. Actual support commitments are awaiting a predisbursement audit of PwC. There are also some outstanding interpretation issues at the Commission that might increase the level of funding for eligible applicants. The outstanding issues include the following:

**Predisbursement Audit.** The Commission has not signed off on the predisbursement audit contracted for by the RHCC because it was not complete, and the Commission could not confirm that procedures are in place to guard against waste, fraud, and abuse. Those procedures must be in place and the Commission must be confident that they are in place before any commitment letters can be issued and before funds can be provided. On January 29, 1999, USAC was directed to take immediate steps to engage an auditor to complete the review and submit it to the Commission. RHCD has not contacted applicants but will need to as soon as USAC knows how long the second audit will take. If the initial audit had been approved and had demonstrated that adequate procedures were in place, as of today approximately 105 sites would qualify for funding of \$605,000.

**Contract/Tariff Issue.** In June 1998, the RHCC asked the Commission whether a contract that refers to a tariff should be treated as a tariffed purchase. This interpretation of the definition of a contract results in any negotiated arrangement or service contract, which referred to a tariff number, to be denied the ability to receive retroactive funds for the eligible service.

Many state commissions require, as a matter of law, that all services are offered under a tariffed rate. However, as competition created pressure for individually negotiated rates, one preferred Band-Aid approach was a shell tariff that allowed individually contracted rates as long as the tariff number was cited. Alternatively, individually negotiated rates are given a unique tariff number for the sake of the state requirement. In actuality, these negotiated agreements are much more like contracts than they are like a generally available tariffed service.

Commission staff has confirmed to RHCD staff that the intent of the distinction drawn in the Commission Order was for arrangements that appear in all respects like a contract and should be considered a contract, and that retroactive awards would be possible for 1998. This distinction is consistent with the situation in most states as discussed above. RHCD staff estimates that the current interpretation will increase current year commitments by \$990,000. This issue should be resolved quickly; however, it will require a recalculation of support for the applications already processed.

**ETC Support Calculation.** The requirement that support is only available to ETCs limits the support available to RHCPs, as non-ETC service is not part of the calculation of the urban-rural rate differential. Because the inter-exchange carrier (IXC) which provides service that crosses a LATA is often not an ETC, the reimbursement of the rural rate differential must not include the cost of the IXC piece. The comparable urban rate does not have any long-distance component, so the entire long-distance portion should be eligible for support, if it is offered by an ETC. However, many ETCs do not provide long-distance service, and some are legally barred from providing it at this time. Similarly, many inter-exchange carriers (IXCs) have not filed to become an ETC.

Absent the adoption of a different definition of ETC, or clarification that non-ETCs may provide discounted service to RHCPs for the long-distance portion of service, the limited use of resale of long-distance service by non-regional Bell operating company (RBOC) ETCs results in less support for the RHCPs than they otherwise should receive. The Commission is currently examining this issue.

**The Alaska Reimbursement Timing Problem.** For any ETC, the Commission rules state, that the carrier may receive direct reimbursement if the total amount of support owed the carrier exceeds its obligation, "calculated on an annual basis." This has been interpreted to mean that the carrier must wait until the end of the year to receive the additional amount. USAC is examining with the Commission whether a carrier's obligation "calculated on an annual basis" could allow for direct reimbursement based on a month-by-month calculation of a carrier's annual obligation.

In some situations in Alaska where the maximum allowable distance (MAD) is exceptionally high, this rule can lead to a significant cash flow problem for a small utility. Out of 50 packets (representing 230 sites) for an Alaska location, the average MAD is 402 miles and the median MAD is 475 miles. The maximum value of the MAD is 1,110 miles. The monthly credit for a single site can run several thousand dollars.

In addition to exploring the month-by-month calculations of a carrier's annual obligation, the Commission has suggested that the carriers apply for a waiver. If a waiver of the Commission rule is not provided, the telecommunications providers may be reluctant to participate in the Program. There have been 230 Form 465s filed for sites in Alaska. Many have not yet filed Forms 466 and 467 due to the uncertainty of the cash flow for the local exchange carrier (LEC).

**The Alaska Resell Issue.** A solution to the ETC issue has been proposed in Alaska. Almost all service in Alaska would be provided by non-ETCs. Since Alaskan non-RBOC ETCs can resell non-ETC service, RHCPs can receive support for non-ETC circuits. This resale option would be available to all ETCs other than RBOCs in locations outside of Alaska. Alaska has found, however, that the resale solution is difficult to put into practice. Only one network has put this plan in place as of the date of this report.

**The Third-Party Billing Issue.** The third-party billing issue refers to the common practice for rural health care providers to receive telecommunications services at one site and have the bill sent to another site or another entity for payment. The issue is how to ensure that the credits, which are not directly received by the RHCPs, translate into a direct telecommunications credit or benefit to the RHCPs. This issue may affect more than 50 percent of the applications. The RHCD and Commission staff are close to a resolution of this issue.

**The Per-Location Funding Limit Problem.** The per-location funding level cannot be greater than the T-1 rate. In some locations, the comparable T-1 rates for rural and urban locations are the same, but 56k lines may have a greater cost in the rural area. The outstanding question is, does the lack of T-1 rate differential determine that no credit can be given? The RHCD staff has asked the Commission for a written interpretation of this issue. A related issue occurs when the services have no circuit distance and might result in zero support based on the standard calculations. This issue does not effect a large number of applicants based upon the applications that have been reviewed to date.

## SECTION IV

### Industry Benchmarks for Comparable Organizations

#### Description of Comparable Group

To assess the RHCD administrative costs with comparable funds and charities, data collected on administrative expenses, total Program expenses, and full-time equivalent (FTE) staff levels were reviewed. Sample data from 45 funds were extracted from *The Foundation Center's Database on CD-ROM*. Comparable data for 18 large charities was extracted from the *Internet Nonprofit Center Library*. The third comparable group consists of 10 organizations created primarily by Federal government agencies. Information on this group was collected from Internet web sites and from personal telephone interviews with staff. The group with Federal government ties, for the most part, reported to the Office of Management and Budget (OMB) and the government agency to which it is attached.

Public and private funds were chosen for the benchmarking process that were either endowed or received directly from a corporate organization. No fund raising activities are included in these organizations. This makes them more comparable to RHCD than those that spend significant resources on fund raising. The sample population of large charities was chosen to provide a corroborative perspective. The organizations created by Federal government agencies provide insight into the cost of adhering to Federal government reporting and infrastructure requirements. For organizations of like size, the RHCD is more like agencies created by the Federal government than private foundations.

The funds selected from *The Foundation Center's Database on CD-ROM* produced a population that ranged in annual giving from \$5-120 million and the charities from the *Internet Nonprofit Center Library* ranged from about \$1-100 million. The overall quasi-government group ranged in size from \$2 million to \$262 billion, but a smaller group was used for the benchmark analysis spanning a program size of \$2-19 million. The fund sample was weighted more heavily in the \$5-50 million range to be more representative of the RHCD distribution range. Funds under \$5 million were not included because those funds most often did not list staff or administrative expense and the upper end of the range was limited to \$100 million for trending purposes. The trend lines in these charts are second degree polynomial fits to the data.

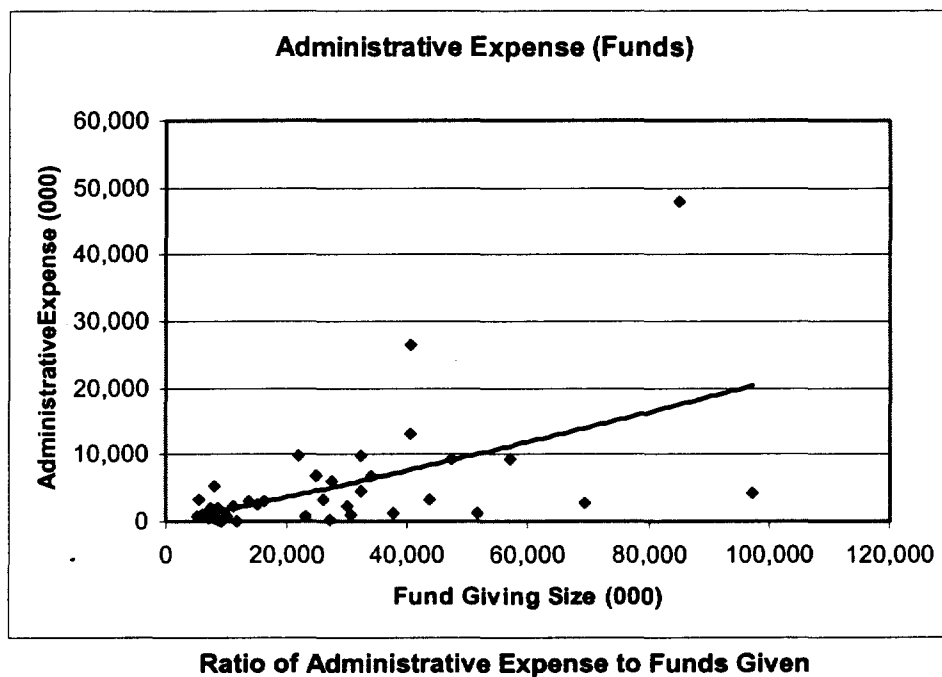
Subtracting Total Funds Given from Fund Expenditures creates the measure of Administrative Expenses. The Percent Administration is calculated as the Administrative Expense divided by the amount of Funds Given times 100. The Weighted Staff is the sum of full time professional and support staff plus half the part time professional and support staff.

These calculations are straightforward and do not look at finer gradations in expenses. Data for this study was limited to that which is publicly available. While this may cause some imperfect category comparisons, USAC believes that the results are reasonable and generally reliable. No graphs are provided for the governmental group since the sample size of comparable groups is too small.

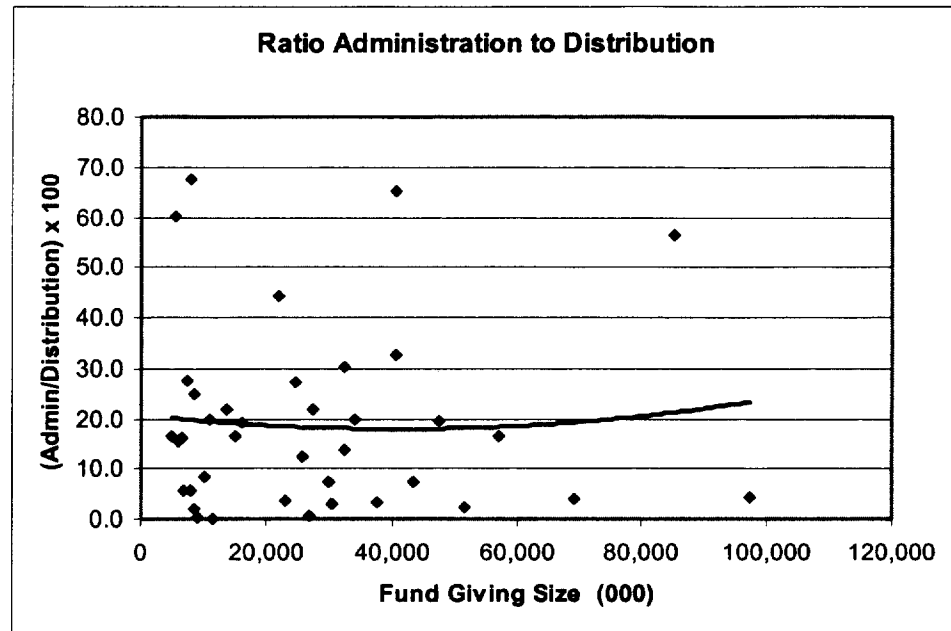
### Summary of Benchmark Analysis

The trend analysis for charities is plotted for administrative expenses vs. distribution and for the ratio of administrative expenses to distribution. Staffing data for these charities were not available.

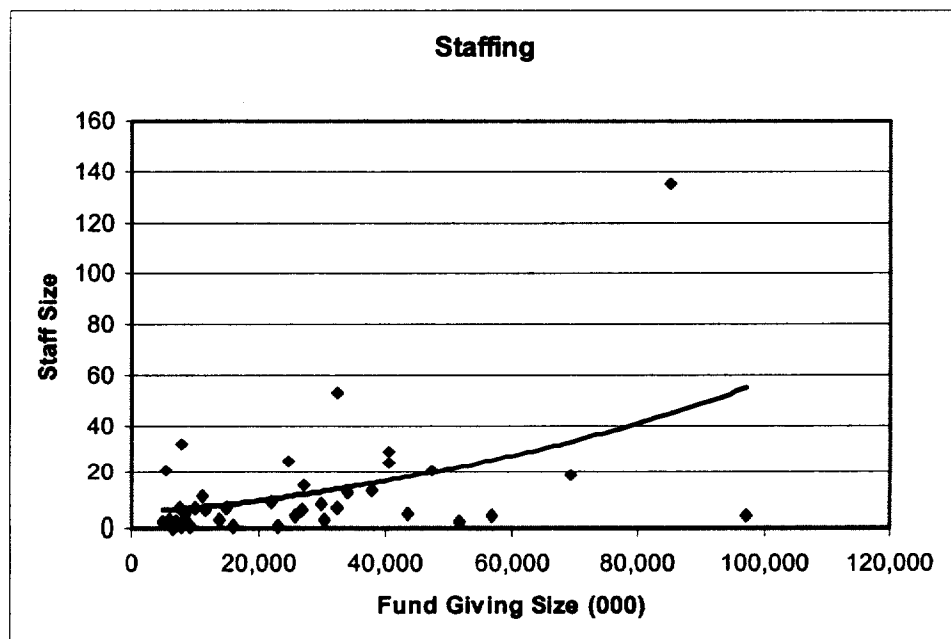
**Fund Administrative Expense for Fund Sample.** Fund administrative expense appears to grow with fund size, but as the fund size decreases the administrative cost approaches the \$1-2 million range.



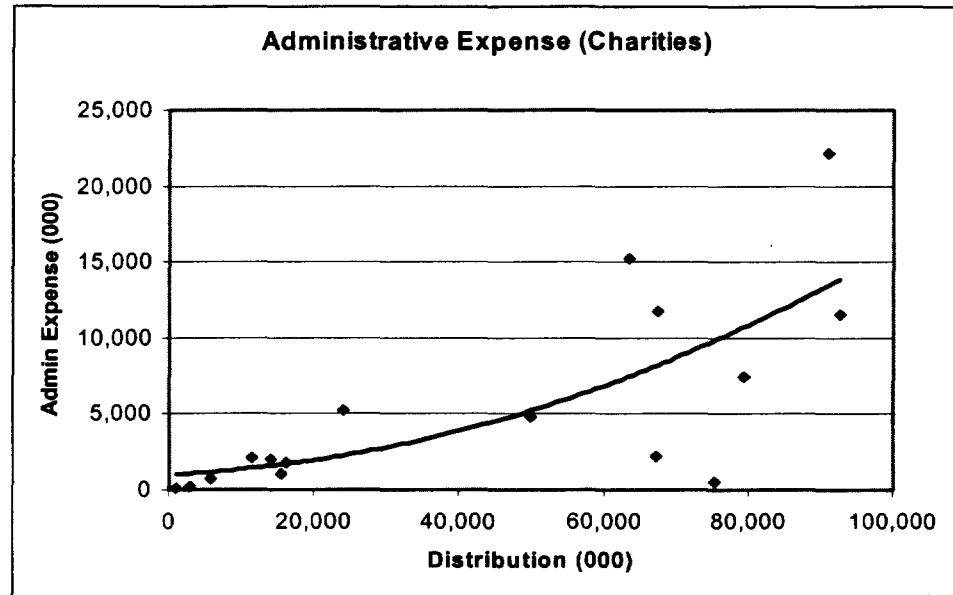
The ratio of Administrative Expense to the Fund Giving Size appears to be more or less constant across the range of fund sizes, and about 20 percent for funds in the \$5-100 million range.



The staff supporting a fund increases with fund size, but as the fund decreases the staff size levels out around seven weighted staffers (full-time + ½ part-time).

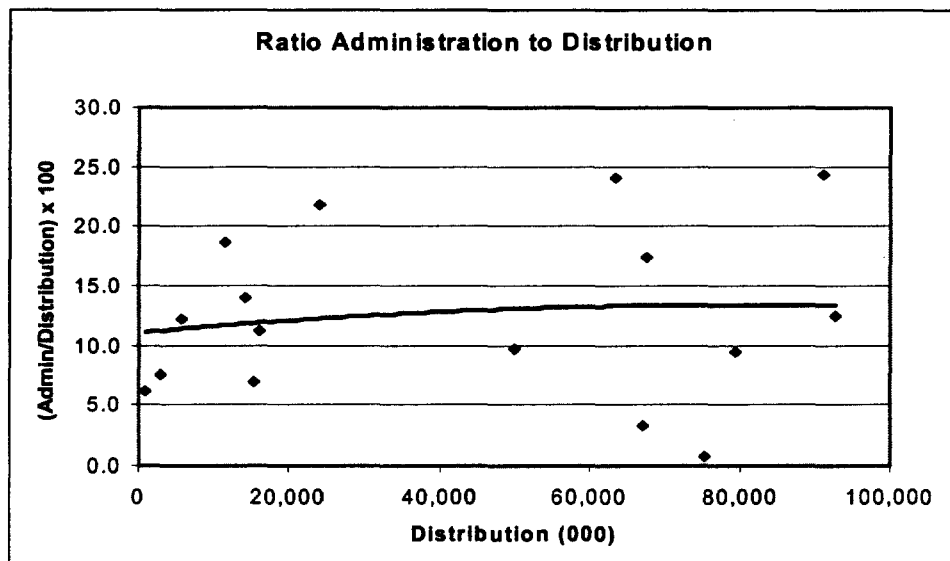


**Administrative Expenses for Large Charities Sample.** For large charities elimination of the two outlying charities over \$100 million indicates a trend leveling off around \$1-2 million at the low end which is consistent with the fund analysis above.



The ratio of administrative expenses to the size of the distribution for the large charities indicates a relatively constant ratio with an average of about 13 percent for the charities with distributions less than \$100 million. This is slightly lower than the trend for the funds displayed above.

The following table compares these trends in administrative loading.



**Benchmark Data Summary**

	<b>Funds<sup>8</sup></b>	<b>Large Charities<sup>9</sup></b>	<b>Government Origin<sup>10</sup></b>	<b>Current RHCD 1999</b>
Ratio of Expense to Fund Size	18% - 20%	11% - 12%	10% - 26%	50%
Staff	8 - 10	NA	1 - 34	17 <sup>11</sup>

While staff levels are not unreasonable when compared with the benchmark standards, the ratio of administrative expense to fund size is. The RHCD may be more comparable to government grant programs because of government rules and regulations. The operating procedures for RHCD were developed to implement the specifics of the Act of 1996 and the stringent requirements associated with prevention of waste, fraud, and abuse. However, the benchmarks for the funds and large charities are also useful comparisons.

<sup>8</sup> Based on a \$10-20 million fund estimate.

<sup>9</sup> Based on a \$10-20 million fund estimate.

<sup>10</sup> Based on a \$2-19 million fund estimate.

<sup>11</sup> The RHCD has four FTE positions allocated directly or indirectly; in addition, it has contracted with PwC who employees 13 people. This estimate does not include any staff for the Billing and Collection function.



## **SECTION V**

### **Customer and Stakeholder Feedback**

USAC surveyed customers and stakeholders. The comments and recommendations are incorporated into the analysis of barriers and the recommendations for improvement.

#### **Customer Groups**

To reach current customers and potential customers of the RHC Program, three distinct RHCP groups were surveyed:

**Group 1:** RHCPs that have not participated in the Program

**Group 2:** RHCPs that have submitted Form 465 but not Form 466

**Group 3:** RHCPs that have submitted both Form 465 and 466

The surveys were conducted by telephone and represented random samples of all three groups. The universe of respondents for Group 1 included the 20,000 entities that were mailed information but did not file a Form 465, so care was taken to call only potential rural locations. The sample sizes for Groups 1, 2, and 3 were 14, 18, and 22, respectively.

Many of those interviewed in Group 1 had not heard of either the RHCD or the Universal Service Program. Group 2 was outspoken about the need to define the Program to meet the "real needs" of the RHCPs. Most were not going to continue the application process because the support they needed did not qualify for funding. Group 3 was the most articulate group of interviewees. Their overriding themes were as follows: (a) this is potentially a great program; (b) the Program needs some modifications based on the realities of rural telecommunications; and (c) incentives are needed to encourage service providers to participate in the applications process.

#### **Feedback from Selected ETCs Involved in Process Development of the Program**

This group of ETCs is comprised of several companies who were actively involved in creating the process for this Program. These companies have spent a significant amount of time to make this project work. They have participated in workgroups and committees with USAC, SLD, and RHCD to develop a feasible plan to integrate their processes into the Rural Health Care and Schools and Libraries support programs.

The ETCs contacted said that the telephone industry has been working hard to make this project work. They have participated in workgroups and committees with USAC to develop a feasible plan to integrate their processes into the support

programs. On their own, the telephone industry has met with the Commission to discuss barriers to success and to present recommended changes to make the Program workable with respect to Commission rules and the wording of the Act of 1996. They indicated that they have expended significant time and resources in an effort to make the Program a success.

### **ETCs Focus Group Feedback (Conducted by NTCA, 2/10/99, San Antonio)**

Ten persons representing telecommunications companies attended the NTCA session on Telecommunications Discounts for Rural Health Care Providers presented at the NTCA Annual Meeting and Exposition in San Antonio. All of the attendees at the session stayed for the focus group immediately following. USAC staff observed the focus group responses.

### **Feedback from Selected Non-ETCs**

RHCD contacted non-ETCs to obtain their input with respect to their exclusion from the Program and gave them the opportunity to comment on any other issues related to the Program. As the Program stands today, the RHCPs cannot apply for subsidies offered by non-ETCs. The non-ETCs stated, that while there may be some missed opportunity for communications business, rural health care demand is small and any potential revenue would be more than offset by the burdensome procedures and inordinate amount of time and resources to implement and maintain the Program as it is configured today.

## SECTION VI

### Identification and Quantification of Barriers to Efficient Operation and Recommendations for Improvement

The stakeholder groups identified the barriers that are listed below. In some instances, various stakeholder groups did not always agree with the items identified by another stakeholder group as a barrier. The identification of these barriers and proposed solutions will help frame the discussion. The Commission can further refine these solutions with additional input from stakeholders. The Commission may want to convene a technical advisory group to provide this input.

#### Administrative Barriers

##### *Outreach*

While outreach has not proven to be a significant barrier to the success of RHCD, it has been difficult to design an outreach program that will effectively reach the beneficiaries because the actual target market size and location is not known with certainty. Outreach efforts on the part of the contractors and on the part of the RHCD staff have been numerous, with presentations at conventions, meetings, and call-in seminars as well as via videoconferencing. RHCD staff has participated on three work groups related to the Program and distributed approximately 20,000 direct mail pieces during the early part of 1998.

Two contracts were awarded to assist with outreach. The contract with NTCA represents an ongoing effort with broad geographic coverage. The contract with NOSORH, also has broad geographic coverage but has not yet come to full fruition for the 1998 Program year. The results of both contracts will not be fully known until the final status reports are submitted.

The NTCA had a very specific and well-defined plan for outreach in its July 1998 contract. The NTCA status report enumerates each outreach item promised. The Program is running behind its original schedule and NTCA has asked that the term be extended so that it can continue to take advantage of outreach opportunities. The only concern with this type of an extension is that, by the end of the NTCA contract, the NTCA presenters would need to be updated on changes that have occurred in the Program for the second Program year.

The original contract with NOSORH provided a lot of flexibility in creating programs. However, the plan as outlined in the contract was not specific enough to make a quantitative measure of success. Further, with no specific

status report, even qualitative measures of success are not possible at this time.

Geographically, between the RHCD efforts and those of NOSORH and NTCA, much of the United States has been, or will be, covered. In some instances, the target market has been contacted multiple times. Depending on how some outstanding issues are resolved for Alaska applications, additional outreach should be targeted to this state. The RHCPs in Alaska appear to have the largest urban-rural differentials in telecommunication rates for telemedicine. The RHCD should be sure that these entities benefit from the Program to the highest extent possible by continuing to work closely with the Alaska Public Utilities Commission and other consultants in Alaska to reach the providers. If Alaska is successful, their approach may also be helpful to other large rural states.

If the Commission was to simplify the mileage calculation, there may also be opportunities for Hawaii, other islands, and several Eastern states to participate in the Program.

Targeted mailings or association conference presentations in states that have the highest potential to benefit may also result in increased awareness of the Program by telecommunications providers. Other rural states should be the target for workshops and concentrated activity. Some large rural states were included in the first year of activity; however, some key, large, rural states were not.

Outreach plans should also include partnering with associations, federal and state agencies, the telecommunications industry, and other universal service programs. A community-based approach working with carriers, community leaders, school and library officials, and other government agencies to outreach should be considered. Associations, government agencies, and industry should also continue to be used as a resource for identifying the eligible RHCPs.

In addition, some RHCD outreach should be specifically scheduled to coincide with the beginning of the Program year application period to increase average months of support and to assist providers with the application process. Much of the NOSORH work, and some of NTCA's work, will correspond with the opening of the 1999 application acceptance period. Coordination of outreach with the beginning of the plan year will help increase the number of eligible months of support. However, it is not clear that those efforts will be targeted or focused on Year Two.

Any future outsource arrangements should be specific and the success of their efforts should be measurable.

The RHCD staff should request that customer service representative at PwC ask each applicant how he or she heard about the Program. This can be

added to the data file for 1999 applicants and this would provide feedback about which outreach activities have been the most successful.

Outreach efforts must also focus on those RHCPs that have filed a Form 465 to provide assistance in the subsequent phases of the process. Based on the feedback of some applicants, the phased approach was confusing. Some RHCPs that filed Form 465 did not do anything until the 28-day window expired and some were confused when they were "Approved" but received no dollars. "Approved" at this stage only means that the RHCP is eligible; this terminology has been confusing to some stakeholders and should be changed for the next application year.

### ***Forms and Instructions***

The current forms and instructions are a major barrier to interest and willingness to persevere by the RHCPs and the ETCs. While much of the complexity is necessarily tied to the calculation of the urban-rural differential, the forms— with the exception of Form 465— are still burdensome from the viewpoint of the RHCPs and ETCs. The RHCPs do not seem to understand the phased nature of the application process. They do not understand who is responsible for each step and the purpose of the posting. The most direct approach to handling this is to simplify the process so that the forms can be simplified. It would also be helpful to provide an overview of the entire process, including who is responsible for each step and how to resolve issues. However, it will be counterproductive to try to simplify the forms themselves and to risk not getting all information necessary to complete the application process under current rules. Outreach and follow-up is needed during and after the 28-day posting so that the RHCP knows what to do next. Some applicants were in a perceived state of limbo waiting for a call from the RHCD. RHCPs should be encouraged to work with telecommunications providers to discuss services and issues prior to the close of the 28-day window. This will help the RHCPs be prepared for the next step.

The most important change in form administration from the RHCP perspective would be to shift the burden for application and rate calculation to the local telecommunications service provider. While this may seem like a shell game where the responsibility for filling out a complex form is just shifted to another, the reality is that much time is wasted by the RHCP waiting for the ETC to do its part and then to notify the RHCP. The ETC is more sophisticated about telecommunications matters than is the RHCP. A one-step approach with the actual calculations performed by the ETC rather than RHCD or PwC would be a significant improvement in the Program. The ETC would have to determine the comparable urban service and make some judgment about how to calculate the difference. Simplification of the calculation should be done regardless of whom has the burden to fill out the forms.

It is possible to identify several form improvements on the electronic system, such as a prefill function for past filers or a download and upload feature for

all forms. Unfortunately, the ratio of benefits to costs for such enhancements is very low and would serve only as a Band-Aid approach to solving the program and calculation complexity problem.

### ***Responsiveness of PwC and RHCD to Applicants and Vendors***

There is evidence that PwC and RHCD have worked with and listened to the concerns of stakeholders. There have been many issues and problems to resolve in this first Program cycle. The next application cycle should be easier for those who participated in the first round and it should be easier for the staff. The Program director should have the responsibility to create awareness of the Program and to work effectively with stakeholders.

### ***Effectiveness of Outsourced Services***

#### **PwC**

PwC appears to be performing its job as required. The staff appears well trained and is helpful according to survey respondents. The real issue with PwC is whether RHCD should continue with such a complex program and infrastructure and whether some of the functions could be brought in-house and accomplished less expensively. The barrier to PwC issuing commitment letters at this time is the pending predisbursement audit to determine whether its procedures are adequate to prevent against waste, fraud, and abuse.

#### **NOSORH**

The effectiveness of the NOSORH outreach outsourcing is still uncertain pending its report. The only barrier that can be identified thus far is the timing of the efforts represented in the mini-grants. Because of the late start date of the mini-grants, the effects of this outreach will be minimal for 1998. The benefit to using NOSORH for outreach is its broad reach to the rural community.

#### **NTCA**

The NTCA outreach effort appears to be adequate and in line with the contract expectations, even if a little behind schedule. Again, timing may be the only barrier with the NTCA effort. NTCA has informed the RHCD that it will not be able to deliver 100 commitments from eligible telecommunications providers.

### ***Calculation of Urban Rate Differential***

The urban-rural rate differential calculation consumes a significant amount of resources and if changed would result in significant efficiencies in the Program. The current method is too complex, too time consuming, and is not as precise as one might expect given the effort that goes into it. Solutions that uphold the mission of the Act of 1996 are the following:

- a. Calculate rate differential based on mileage differential between rural and urban location. Apply a discount to mileage based part of rate. For satellite or other non-mileage based service, calculate actual differential.
- b. Assign the calculation of the differential to the ETC and require the ETC to report on the results, subject to random audits. Since the ETCs are already required to complete Form 468 and the worksheet, the increased level of effort should not be great compared to the timesaving for the RHCPs, the RHCD, and PwC. The ETCs may not support this change but this change would distribute the effort to the organizations that are best equipped to make these calculations.
- c. Have the RHCD and PwC create a proxy percentage discount for each state based on the average differences in rural and urban rates for representative services in that state. Then apply the discount to all services that qualify. This percentage would have to be reviewed annually for each state.
- d. Request the assistance of the state commissions to calculate the statewide average rate differences.

### ***Lack of Effective Communications***

USAC and its divisions have an obligation to work closely with the Commission and to supply information on an ongoing basis. Effective communications between the Commission and USAC is critically important. The RHCD and the Commission staff should work together to identify methods for decreasing the amount of time taken to resolve issues, recognizing the constraints of the regulatory process. The process of identifying issues in the first Program year has been ongoing. The RHCD was not able to identify all Program issues until applications were processed and problems came to light. This led to a steady stream of requests for clarification over the year. It is anticipated that there will be fewer issues in the second year since unknown problems are less likely to surface, and other clarifications should be minor if the Program is unchanged; however, if the Program is changed significantly as recommended in this report, there may be several clarification requests. Any issues that arise should be identified and all information or data related to the issue should be supplied to the Commission as soon as possible. Effective communication between

Commission staff and RHCD is absolutely essential to success in resolving issues and in awarding support. Improved communication should be a top priority. There are also barriers to effective communication within the RHCP system. At several rural health care facilities resources are stretched so thin that there is often little time to become familiar with the complexities of the Program and to share information about the Program.

Effective communication is not only necessary between the Commission and USAC; it is also vital between the Commission, USAC, the intended beneficiaries of the Program, RHCPs, and ETCs. It is important to continue to strengthen the lines of communication between all of these entities. Additionally, the RHCPs should continue to build on the communication network they have established within the rural health community regarding this Program. A communication network about the Program that works at the national level and the local RHCP level is necessary. All parties working together can help ensure that the best program possible is made available for RHCPs.

### ***Lack of Program Consolidation***

Consolidation of programs with similar processes could reduce administrative expenses and may serve customers better. This should be explored after current contracts expire.



## **Policy Barriers**

### ***ETC Requirement***

The current ETC requirement was mentioned by some participants in our survey as a barrier to receiving adequate support to make their participation worthwhile. This is most acute in Alaska. There has been a solution proposed for this barrier in Alaska. If this solution works it may also be helpful in other states. To the extent the Commission is able to extend support to services provided by non-ETCs, it would increase services funded and would help broaden participation in the Program. Although the impact of a change in ETC status does not significantly impact demand projections for 1999, the issue may increase the number of applicants. The RHCD estimates that as many as 35 percent of RHCPs may be adversely affected and therefore they do not complete the application process when they realize that the non-ETC support cannot be included. This may explain some of the difference between Form 465 filings and Forms 466/468 submissions.

### ***Third-Party Billing***

The original Program design did not allow payment to third parties, although the Act of 1996 did contemplate it. Over the course of the Program year, the RHCD found that this affected a significant portion of RHCPs. This barrier is in the resolution stage.

### ***Posting/Contracting Requirement***

The posting requirement was included in the Program to take advantage of the competitive providers of telecommunications services for RHCPs. However, competition has not penetrated many rural areas. There is no evidence that the posting has led to competitive offers to date, with the exception of the resale of long-distance for the Alaska sites.

### ***Level of Money Available per Site***

Some survey respondents cited the level of support as a barrier to participation. They were interested in support for the IXC portion of their bills and for terminal equipment and computers. Support for the IXC portion is related to the ETC requirement as discussed above as most long-distance companies are not ETCs. The Program was not originally intended to support terminal equipment. Given the low level of demand the concern about limiting the amount per site may not be as critical as originally believed. Changes to this policy that would include terminal equipment and other issues raised by RHCPs would be a major departure from the original Program but would increase participation.